

## Internal Revenue Service

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Department of the Treasury  
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PLR-106860-15

Date:  
August 24, 2015

### Legend:

Taxpayer =

Tax Exempt 1 =

Tax Exempt 2 =

Nonprofit =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

State A =

State B =

State C =

Business A =

Business B =

Dear :

This letter responds to your January 31, 2015, letter requesting rulings on certain federal income tax consequences of a completed transaction involving the above taxpayer. The material information submitted in that request and in subsequent correspondence is summarized below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Tax Exempt 1 and Tax Exempt 2 are tax exempt entities under section 501(a) of the Internal Revenue Code ("Code") as organizations described in section 501(c)(3) of the Code. Tax Exempt 1 was organized under State A law and conducted Business A in State A and in State C. Following its acquisition of Taxpayer, as described below, Tax Exempt 1 conducted Business A in State A, State B and in State C.

Pursuant to an affiliation agreement executed on Date 1 (the "Affiliation Agreement"), Tax Exempt 2 affiliated with and became a subsidiary of Tax Exempt 1, effective on Date 2. Tax Exempt 1 held all of the membership interest in Tax Exempt 2.

Tax Exempt 2 was organized under State B law and conducted Business A in State B. Tax Exempt 2 owned all of the stock of Taxpayer.

Taxpayer was incorporated in State B as a for profit corporation and was engaged in Business B. Taxpayer provided Business B services to customers of Tax Exempt 2.

Pursuant to a stock purchase agreement executed on Date 3, Tax Exempt 2 sold all of the stock of Taxpayer to Tax Exempt 1 in a taxable sale, effective on Date 4. Taxpayer had a net operating loss carryforward on the date of the sale. Taxpayer thereafter provided Business B services to customers of Tax Exempt 1 in addition to providing services to customers of Tax Exempt 2.

Each of Taxpayer and Tax Exempt 2 has its own management and board of directors that exercises day to day control over the business affairs, but Tax Exempt 1 has the power to exercise general oversight authority over the affiliated entities, including the power to appoint and remove directors pursuant to the Affiliation

Agreement. Tax Exempt 1 also oversees and coordinates the activities of the Business A system carried on by Tax Exempt 2.

Tax Exempt 1, Tax Exempt 2 and Taxpayer each file a stand-alone return for federal income tax purposes.

Tax Exempt 1 is governed by State A law, which provides that a nonprofit corporation cannot distribute its assets, except upon dissolution. State A law further provides that if a nonprofit corporation's organizing documents do not provide for the distribution of assets upon the nonprofit corporation's dissolution, the nonprofit corporation's assets shall be distributed to one or more persons described in section 501(c)(3) of the Code.

The charter for Tax Exempt 1 provides that upon its dissolution, the remaining assets shall be distributed to one or more organizations described in section 501(c)(3) of the Code as selected by the Board of Directors of Tax Exempt 1.

Tax Exempt 2 is governed by State B law, which prohibits a nonprofit corporation from making distributions or any other payments to another organization unless the distribution is made in accordance with the stated purpose of the nonprofit corporation and the distributee is exempt from taxation under section 501(c)(3) of the Code. State B law further provides that upon dissolution, the distribution of assets must be provided for within the nonprofit corporation's articles of incorporation or bylaws.

The charter for Tax Exempt 2 provides that upon its dissolution, the assets of Tax Exempt 2 will be distributed, subject to the approval of Tax Exempt 1, to Nonprofit, an organization described in section 501(c)(3) of the Code; or to an organization with purposes substantially similar to those of Tax Exempt 2, as determined by Tax Exempt 1.

#### Representations

- (a) There is no plan or intention to convert Tax Exempt 1 or Tax Exempt 2 to a for profit entity.
- (b) Taxpayer did not undergo an ownership change as defined in section 382(g) during the three year period prior to Date 4.
- (c) Taxpayer has no issued or outstanding stock options.

#### Ruling

Based upon the information provided and the representations made, we rule as follows:

The transfer from Tax Exempt 2 to Tax Exempt 1 of all of the stock of Taxpayer does not result in an ownership change of the Taxpayer within the meaning of section 382(g).

#### Caveat

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of any aspect of any transaction or item discussed or referenced in this letter. We express no opinion about the tax treatment of the transaction as described under other provisions of the Code or regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that is not specifically covered by the above ruling.

Temporary or final regulations pertaining to one or more of the issues addressed in this ruling letter have not yet been adopted. Therefore, the service may modify or revoke this letter if temporary or final regulations as adopted are inconsistent with any conclusions herein. See section 11.04(4) of Revenue Procedure 2015-1, 2015-1 I.R.B. 1, 61. However, when the criteria in section 11.04 of Rev. Proc. 2015-1 are satisfied, the Service will not revoke or retroactively modify a ruling except in rare or unusual circumstances.

#### Procedural Statements

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this letter ruling.

In accordance with the power of attorney on file in this office, a copy of this ruling letter is being sent to your authorized representatives.

Sincerely,

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Isaac W. Zimbalist  
Senior Technician Reviewer, Branch 1  
Office of Associate Chief Counsel (Corporate)